

# Fraud, Culture and the Law: Can China Change?

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*By Stanley Lubman*

Counterfeit goods and scams are used to defraud millions of Chinese daily.

This week alone, the country's state media have reported the arrests of two men for fraud: one a high-profile real estate financier suspected of [manipulating bids](#), the other a sales manager at milk producer Mengniu who reportedly [tampered with production dates](#) on milk and yogurt labels.



A Chinese official with the Food and Drug Administration covers his nose from the unpleasant smell from over 50 tons of confiscated fake medicine to be destroyed during a campaign to mark World Consumer Rights Day in Beijing.

Those cases follow the announcement earlier this month by police that they had seized more than [\\$182 million in counterfeit pharmaceuticals](#), including drugs used to treat diabetes and high blood pressure, as part of a nationwide crackdown on fake food and drugs. Drug counterfeiters “are coming up with new schemes, becoming craftier and better able to deceive” police warned in a statement accompanying the news.

The persistence and extent of fraud in China, despite a near constant string of crackdowns and

arrests, raises fundamental questions about cultural forces in Chinese society that limit the reach of law.

One recent study of the ways in which Chinese people navigate bureaucracy offers some potential clues as to the role culture plays in perpetuating China's fraud problem. The [study](#), by Neil Munro of the University of Glasgow, dissects a 2006 survey of some 2,000 Chinese people in order to analyze the preferred methods used to obtain a government permit. The study doesn't address fraud directly, but it's useful in what it reveals about attitudes among different groups in China toward obeying rules

Among the study's findings is that rule-evading workarounds like *guanxi* (exploitation of personal relationships) and bribery are prevalent among wealthier men in dealing with the government, but that elsewhere in society there is more trust in the state, and more support for the market, political freedom and meritocracy.

Reflecting the preference among the powerful for skirting the rules, the spread of counterfeit products is dramatized by some unusual and inventive efforts to evade the law. The production of counterfeit cigarettes, for example, has been estimated to reach 400 billion cigarettes, although cigarette manufacturing and distribution is supposed to be exclusively state-owned and controlled. One manufacturer reportedly went so far as build a counterfeit cigarette factory in Fujian [designed to look like a military compound](#), including laborers dressed in second-hand military uniforms who conducted false military drills to complement the masquerade. In Sichuan, meanwhile, police are said to have raised a black-market cigarette factory that had been [disguised as the "Number 1 Block" of a provincial prison](#).

The [range of frauds](#) is both impressive and ominous: Chinese-made fakes have included everything from [Apple stores](#) and [police stations](#) to [foreign banks](#) and [high-tech components](#) used in U.S. military gear. Another extreme practice that has developed is the [hiring substitutes](#) to bear criminal punishment for the offenses of others – something that has been [suspected](#), though not proven, in the recent trial of the wife of fallen Communist Party leader Bo Xilai.

Fraud, scams and product counterfeiting occur in all nations, of course. Recently a writer for respected U.S. magazine the New Yorker resigned after he was revealed to have [fabricated quotes and plagiarized his own work](#) for other publications. And then, of course, there is the United States' long struggle with Ponzi schemes, which proliferated first in the 1920's and again in the last

decade, most notably in the form of fraudulent investment funds created by Bernard Madoff.

Commenting on Ponzi schemes through the ages, including Mr. Madoff's, the New York Times [noted](#) that although “the magnitude, scale and details are different, [these frauds ] each reflect their respective, super-heated financial eras.” The same could be said of China, where economic reform has surely been “super-heated,” and where the number and frequency of frauds of various types reflects a social and economic environment in which legal rules are as often as not disregarded.

Can culture change? Other forces appear to be nudging Chinese society in a different direction. While this column was being written, a broadcast on the rising influence of Sina Corp.'s Weibo microblogging service, now used by 350 million people, told the [story](#) of a Chinese university student who became so angry about food safety violations that he started a blog to track them in January 2012. In April, he had 10,000 visitors. By May, he had 5 million.

Social media, as well as the traditional media, have the power to influence culture, including attitudes toward obeying the law. But in order for that influence to make a difference, the government must find a way to link growing public awareness with stronger efforts to punish fraud.



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